



HB 1628
Sales and use Tax – Rate Reduction and Services
Ways and Means Committee
Position: Unfavorable

Maryland AGC, the Maryland Chapter of the Associated General Contractors of America, provides professional education, business development, and advocacy for commercial construction companies and vendors, both open shop and union. AGC of America is the nation’s largest and oldest trade association for the construction industry. AGC of America represents more than 26,000 firms, including over 6,500 of America’s leading general contractors, and over 9,000 specialty-contracting firms, all through a nationwide network of chapters. Maryland AGC opposes HB 1628 and respectfully urges the bill be given an unfavorable report.

HB 1628 imposes a reduced sales tax rate of 5% on all services, unless exempted. Therefore, it will for the first time apply the sales tax to construction services. Nothing in the bill exempts construction services from the broadened sales tax. Since, as a practical matter, materials used in construction are already subject to the sales tax, HB 1628 will bring all of the remaining economic value of construction under the sales tax, i.e., the labor component of construction. The impact is certain – there will be less construction activity because of the higher cost and fewer construction jobs. This will affect both private and public construction.

The magnitude of the impact has been very understated by the Fiscal Note. The Appendix itemizes a long list of services to be taxed, but omits erroneously construction services. Following the methodology used in the Fiscal Note but applying it just to construction reveals the correct magnitude of the impact. The Fiscal note developed its projections “based on product line and NAICS code data from the Economic Census survey conducted by the U.S. Census Bureau in 2012 and adjusted to fiscal 2021 using gross domestic product and consumer price index data for Maryland.”

That same census, using NAICS code 23 (construction), found the volume of all construction in Maryland in 2012 was \$31.5 billion.¹ Using the same growth factor as the Fiscal Note, construction in FY 2021 would equate to \$40.5 billion. That total has to be reduced by the value of materials already subject to the sales tax. As an average, materials are between 30% and 40% of the total cost. To be conservative, assume 40% of total construction is materials already taxed, leaving 60% or \$24.3 billion as construction services to be taxed. Accordingly, using the same growth factors as the Fiscal Note, construction services taxed at 5% would yield \$1.2 billion in FY 2021 and \$4.0 billion in FY 2025.

Needless to say, a cost increase of this magnitude will be devastating for the construction industry. Accordingly, Maryland AGC respectfully urges the Committee to give HB 1628 an unfavorable report.

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¹ Bureau of the Census, [Construction: Summary Series: General Summary: Value of Construction Work for Location of Construction Work by Subsectors and Industries for U.S. and States: 2012](#)